

Message Text

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E.O. 11652: N/A

TAGS: ETRD, EAGR,

SUBJECT: CONGRESSIONAL COFFEE HEARINGS

1. TRANSMITTED HERewith IS THE STATEMENT GIVEN BY JULIUS L. KATZ, ASSISTANT SECRETARY OF STATE BEFORE THE COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE OF THE GOVERNMENT OPERATIONS COMMITTEE AND THE DOMESTIC MARKETING, CONSUMER RELATIONS AND NUTRITION SUBCOMMITTEE OF THE AGRICULTURE COMMITTEE, HOUSE OF REPRESENTATIVES, ON FEBRUARY 22, 1977.

2. BEGIN TEXT: MR. CHAIRMAN: THANK YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE THIS JOINT MEETING OF THE SUBCOMMITTEES. ON MARCH 16 LAST YEAR I APPEARED BEFORE THE SUBCOMMITTEE ON DOMESTIC MARKETING AND CONSUMER RELATIONS TO DISCUSS THE INTERNATIONAL ASPECTS OF COFFEE PRICES.

ONE YEAR AGO, THE PRICE OF GREEN COFFEE WAS NEAR ONE DOLLAR A POUND. TODAY, GREEN COFFEE PRICES ARE IN THE VICINITY OF DOLLARS 2.40 PER POUND. IT IS UNDERSTANDABLE AND APPROPRIATE THAT THESE HEARINGS SHOULD BE HELD TO UNCLASSIFIED

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EXAMINE THE CAUSES FOR THE RAPID INCREASE OF COFFEE PRICES. I THEREFORE WELCOME THESE HEARINGS AS AN OPPORTUNITY TO INFORM THE AMERICAN CONSUMER ABOUT THE SITUATION. IN MY TESTIMONY LAST MARCH, I AND OTHER WITNESSES OUTLINED THE BASIC SUPPLY AND DEMAND OUTLOOK FOR THE NEXT SEVERAL YEARS. EVENTS IN THE INTERVENING YEAR HAVE CONFIRMED THE TESTIMONY PRESENTED THEN. WITH YOUR PERMISSION, MR. CHAIRMAN, I WOULD LIKE TO APPEND TO THIS STATEMENT THE STATEMENT I GAVE ON MARCH 16, 1976. I WILL BRIEFLY SUMMARIZE THE MAJOR POINTS I MADE.

I NOTED THAT THE FROST WHICH STRUCK THE COFFEE GROWING REGIONS OF BRAZIL ON JULY 17, 1975, HAD DESTROYED OR SEVERELY DAMAGED 1.5 OF THE 2.9 BILLION COFFEE TREES IN BRAZIL. I POINTED OUT THAT AS A CONSEQUENCE OF THIS FROST, BRAZILIAN PRODUCTION IN 1976, WHICH OTHERWISE WOULD HAVE REACHED 28 MILLION BAGS, WOULD TOTAL NO MORE THAN 9 MILLION BAGS. I ALSO DISCUSSED THE EFFECT OF THE CIVIL WAR IN ANGOLA ON ITS PRODUCTION OUTLOOK AND LESS SERIOUS DISTURBANCES IN SEVERAL OTHER PRODUCING COUNTRIES.

IN DISCUSSING LONG TERM COFFEE PRODUCTION AND PRICE TRENDS, I PRESENTED A CHART SHOWING THE INVERSE RELATIONSHIP BETWEEN COFFEE PRICES AND PRODUCTION.

TIONSHIP BETWEEN GREEN COFFEE PRICES AND THE LEVEL OF WORLD CARRY-OVER STOCKS. WE HAVE PREPARED AN UPDATED VERSION OF THIS CHART BASED ON DEPARTMENT OF AGRICULTURE ESTIMATES. THIS CHART SHOWS GRAPHICALLY HOW PRICES FALL WHEN STOCKS RISE AND THE REACTION OF PRICES TO A FALL IN STOCKS. AS YOU CAN SEE, STOCKS NOW ARE AS LOW IN ABSOLUTE TERMS AS THEY HAVE BEEN IN TWENTY YEARS AND ARE PROJECTED TO DROP EVEN LOWER TO A LEVEL OF ABOUT 20 MILLION BAGS OR ROUGHLY 3 MONTHS CONSUMPTION BY 1978.

A FURTHER CHART SHOWS WORLD EXPORTABLE PRODUCTION AND WORLD EXPORTS FROM 1950 TO 1976, WITH PROJECTIONS TO UNCLASSIFIED

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1980. THIS CHART ILLUSTRATES THAT FROM 1966 FORWARD, EXPORTS EXCEEDED EXPORTABLE PRODUCTION IN EVERY YEAR EXCEPT COFFEE YEAR 1974/75. THE PROJECTION TO 1980-- WHICH ASSUMES NO FURTHER MAJOR PRODUCTION DISTURBANCES-- INDICATED THAT 1979 WILL BE THE EARLIEST WE COULD SEE A RETURN TO APPROXIMATE BALANCE BETWEEN PRODUCTION AND EXPORTS. IN THE MEANTIME, WORLD CARRY-OVER STOCKS WILL BE DRAWN DOWN TO VERY LOW LEVELS TO MEET WORLD CONSUMPTION.

IN MY MARCH 1976 TESTIMONY, MR. CHAIRMAN, I DISCUSSED THE NEGOTIATION OF THE NEW INTERNATIONAL COFFEE AGREEMENT AND ITS OPERATING PROVISIONS. I POINTED OUT THAT IN THE NEGOTIATION WE SOUGHT AN AGREEMENT WHICH PROVIDED MAXIMUM INCENTIVES TO EXPORTS DURING THE NEXT SEVERAL YEARS. WE ALSO SOUGHT TO ENCOURAGE PRODUCERS TO RESTORE PRODUCTION.

IN MY CONCLUSION I STATED THAT THE NEXT SEVERAL YEARS WILL INEVITABLY SEE RELATIVELY TIGHT SUPPLIES, BUT BARRING FURTHER DISASTERS, NO ACUTE SHORTAGE OF COFFEE. I ADDED THAT DURING THIS PERIOD COFFEE PRICES WOULD BE EXTREMELY SENSITIVE TO CHANGES IN THE ANTICIPATED SUPPLY/DEMAND BALANCE.

WITH THIS REVIEW AS BACKGROUND, MR. CHAIRMAN, I WILL DISCUSS WHAT HAS HAPPENED SINCE MARCH 1976.

FIRST, THE EARLIER FORECASTS HAVE PROVEN TO BE ABOUT RIGHT. COMPARED TO NORMAL PRODUCTION IN BRAZIL OF 25-28 MILLION BAGS PER YEAR, USDA NOW PROJECTS TOTAL BRAZILIAN PRODUCTION IN COFFEE YEAR 1976/77 AT 9.5 MILLION BAGS. THIS IS THE LOWEST PRODUCTION IN BRAZIL SINCE COFFEE YEAR 1899/1900. USDA FURTHER ESTIMATES BRAZILIAN PRODUCTION IN 1977/78 WILL AMOUNT TO ABOUT 16 MILLION BAGS. THIS MEANS THAT THE BRAZILIAN PRODUCTION FOR THE 2 YEARS FOLLOWING THE FROST WILL BE OF MAGNITUDE UNCLASSIFIED

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OF 25 TO 30 MILLION BAGS LESS THAN NORMAL.

SECOND, RAPIDLY ESCALATING PRICES HAVE INCREASED RATHER THAN REDUCED DEMAND IN THE SHORT TERM. IN COFFEE YEAR 1975/76, IMPORTS BY IMPORTING MEMBERS OF THE INTERNATIONAL COFFEE ORGANIZATION WERE 58.7 MILLION BAGS, THE HIGHEST FIGURE RECORDED IN THE PAST 7 YEARS. AFTER ANALYZING THE STATISTICAL SITUATION, THE PROFESSIONAL STAFF OF THE INTERNATIONAL COFFEE ORGANIZATION HAS CONCLUDED THAT HIGHER PRICES HAVE RESULTED IN A BUILDUP OF STOCKS ON RETAIL SHELVES AND IN CONSUMER PANTRIES EQUIVALENT TO 2 TO 3 MILLION BAGS OF GREEN COFFEE. WHILE NOT PARTICULARLY SURPRISING, THIS DEVELOPMENT DOES PLACE ADDED DEMAND ON ALREADY TIGHT SUPPLIES AND GIVES PUSH TO RISING PRICES.

THIRD, EXPORTS FROM THE PRODUCING COUNTRIES TO WORLD MARKETS CONTINUED AT NEAR RECORD LEVELS. IN COFFEE YEAR 1975/76 EXPORTS BY EXPORTING MEMBERS OF THE INTERNATIONAL COFFEE ORGANIZATION TO ALL DESTINATIONS WERE 58.3 MILLION BAGS, A FIGURE EXCEEDED ONLY ONCE IN THE PAST 7 YEARS. FOR CALENDAR YEAR 1976, TOTAL EXPORTS WERE 58.3 MILLION BAGS, COMPARED TO 57.9 MILLION BAGS IN CALENDAR YEAR 1975 AND 54.8 MILLION BAGS IN CALENDAR YEAR 1974. THUS, IT APPEARS CLEAR THAT PRODUCERS ARE MAINTAINING THEIR NORMAL EXPORT RATE AND ARE NOT PLACING ARTIFICIAL RESTRAINTS ON THE FLOW OF COFFEE TO THE MARKETPLACE.

FOURTH, PRICES HAVE SOARED SINCE MARCH 1976. FROM 99

CENTS A POUND IN MARCH, THEY ROSE STEADILY TO A PEAK OF DOLS 1.49 A POUND IN JUNE. IN JULY THEY DROPPED BACK BRIEFLY TO DOLS 1.37 A POUND BUT THE CLIMB RESUMED IN AUGUST. BY THE END OF THE YEAR THEY HAD REACHED A LEVEL OF DOLS 2.07 A POUND. SINCE THE FIRST OF THE UNCLASSIFIED

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YEAR THEY SOARED TO ALMOST DOLS 2.50 A POUND.

FIFTH, THE PRODUCING COUNTRIES HAVE ADOPTED POLICIES AND PROGRAMS TO RESTORE PRODUCTION TO NORMAL LEVELS AS SOON AS POSSIBLE. BRAZIL IS WELL UNDER WAY WITH A DOLS 1 BILLION REPLANTING PROGRAM TO RESTORE ITS COFFEE PRODUCTION. COLOMBIA RECENTLY ANNOUNCED THAT IT WOULD BE SPENDING DOLS 70 MILLION TO FINANCE THE PLANTING OF 200,000 HECTARES OF NEW COFFEE WHICH ULTIMATELY WILL PRODUCE ABOUT 2 MILLION BAGS OF COFFEE A YEAR. IN MOST OTHER PRODUCING COUNTRIES, GOVERNMENTS HAVE ADOPTED POLICIES TO INCREASE THE USE OF FERTILIZERS AND PESTICIDES.

OUR AGRICULTURAL ATTACHES ABROAD REPORT THAT BECAUSE OF HIGHER PRICES, FARMERS ARE TAKING ESPECIALLY GOOD CARE OF THEIR COFFEE TREES TO MAXIMIZE PRODUCTION.

I KNOW THESE SUBCOMMITTEES ARE INTERESTED IN WHAT THE UNITED STATES GOVERNMENT HAS DONE TO DEAL WITH THIS SITUATION. I WILL REVIEW OUR EFFORTS BRIEFLY.

FIRST, IN DIRECT DISCUSSIONS WITH THE RESPONSIBLE OFFICIALS OF THE PRODUCING COUNTRIES AND THROUGH OUR EMBASSIES, WE HAVE CALLED UPON PRODUCER COUNTRY GOVERNMENTS TO ADOPT POLICIES WHICH WOULD RESTRAIN PRICE INCREASES. WE HAVE MADE CLEAR TO PRODUCER GOVERNMENTS THAT A RAPID INCREASE IN PRICES IS CONTRARY TO THEIR BEST INTERESTS BECAUSE IT IS LIKELY TO LEAD TO PERMANENT LOSSES TO CONSUMPTION AND REDUCTION OF THEIR EXPORT EARNINGS.

SECOND, WE HAVE MONITORED CLOSELY THE PRODUCTION, EXPORT AND TAX POLICIES OF THE EXPORTING COUNTRIES, AND WE HAVE INSTRUCTED OUR EMBASSIES TO REPORT ACTIONS WHICH MIGHT RESTRICT THE FLOW OF COFFEE TO THE MARKET. WE HAVE PROMPTLY PURSUED WITH GOVERNMENTS AND OTHER INTERESTED PARTIES RUMORS AND REPORTS WHICH COULD UNCLASSIFIED

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ADVERSELY AFFECT THE MARKETS, SEEKING TO ASCERTAIN THE FACTS AND TO CORRECT MISINFORMATION. WE HAVE ATTEMPTED TO ANTICIPATE POSSIBLE PROBLEM AREAS AND CONVEY OUR VIEWS TO GOVERNMENTS BEFORE PROBLEMS ARISE.

THIRD, TOGETHER WITH OTHER CONSUMING COUNTRIES, WE RATIFIED THE INTERNATIONAL COFFEE AGREEMENT OF 1976 WHICH CONTAINS SIGNIFICANT INCENTIVES TO PRODUCERS TO

RESTORE PRODUCTION LOST BY FROST AND TO SHIP ALL AVAILABLE COFFEE TO THE WORLD MARKET IN THE FIRST TWO YEARS OF THAT AGREEMENT. THE ICA ALSO CONTAINS THE AGREED RULES OF THE GAME AND PROVIDES A FORUM IN WHICH MEMBERS MAY DISCUSS POSSIBLE BREACHES OF THOSE RULES.

FOURTH, WITHIN THE ICO, WE HAVE SPOKEN OUT FIRMLY ON THE OBLIGATION OF MEMBERS TO REFRAIN FROM ARBITRARY INTERVENTION OR MANIPULATION IN WORLD COFFEE MARKETS. WITH OTHER CONSUMING COUNTRIES, WE PROPOSED AT THE MOST RECENT MEETING OF THE ICO EXECUTIVE BOARD, THE CREATION OF A SPECIAL WORKING GROUP TO PREPARE A DETAILED STUDY OF THE SHORT-TERM SUPPLY/DEMAND OUTLOOK BASED ON UP-TO-DATE STATISTICS AND TO UNDERTAKE A SERIOUS TECHNICAL EVALUATION OF THE LONG-TERM PRODUCTION AND SUPPLY OUTLOOK. WE ALSO REQUESTED THE WORKING GROUP TO REVIEW THE INFORMATIONAL ACTIVITIES OF THE ICO TO IDENTIFY

WAYS IN WHICH THE FLOW OF RELIABLE INFORMATION TO THE PRESS AND THE PUBLIC COULD BE IMPOSED.

AS A RESULT OF OUR ACTIVITIES WE HAVE GATHERED CONSIDERABLE INFORMATION AND WE HAVE REACHED CERTAIN CONCLUSIONS WHICH WILL BE OF INTEREST TO THE COMMITTEE.

THE MOST IMPORTANT CONCLUSION IS THAT, TO THE BEST OF OUR KNOWLEDGE, NO COFFEE PRODUCING COUNTRY IS PURSUING POLICIES WHICH RESTRICT OR INHIBIT THE EXPORT OF COFFEE
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TO WORLD MARKETS. AS I NOTED EARLIER, DATA THROUGH DECEMBER 1976 INDICATES EXPORTS ARE AT NEAR RECORD LEVELS.

DETAILED INFORMATION ON THE INTERNAL POLICIES, PRICES AND TAXES IN THE COUNTRIES WHICH ACCOUNT FOR OVER 80 PERCENT OF WORLD EXPORTS IS ATTACHED TO MY STATEMENT AS TABLE I. THIS SUMMARY RESULTED FROM A SURVEY WE CONDUCTED IN EARLY JANUARY. THE TWO MOST INTERESTING COLLECTIONS OF DATA ARE THOSE COVERING "INTERNAL RETAIL PRICE" AND "PRODUCER PRICES".

IN NEARLY EVERY CASE, THE INTERNAL RETAIL PRICE OF COFFEE IN THE PRODUCING COUNTRIES HAS INCREASED SUBSTANTIALLY SINCE THE BRAZILIAN FROST. IN BRAZIL AND A NUMBER OF OTHER IMPORTANT PRODUCING COUNTRIES, THE PRICE HAS MORE THAN DOUBLED. CONSUMERS IN THOSE COUNTRIES ARE THUS ALSO EXPERIENCING THE IMPACT OF THE RISING COFFEE MARKET.

PRODUCER PRICES RECEIVED BY THE COFFEE GROWERS HAVE BEEN RAISED SUBSTANTIALLY IN MOST OF THE PRODUCING

COUNTRIES. THE NEXT CHART, FOR EXAMPLE, ILLUSTRATES THAT SINCE THE FROST, THE RETURN TO THE FARMER HAS TRIPLED IN BRAZIL AND MORE THAN DOUBLED IN COLOMBIA.

WE ALSO SURVEYED OUR EMBASSIES IN THE 10 LARGEST COFFEE CONSUMING COUNTRIES OUTSIDE THE UNITED STATES TO DETERMINE THE RETAIL PRICE OF A ONE POUND CAN OF ROASTED COFFEE IN DECEMBER 1976. THE RESULT OF THAT SURVEY CAN BE SEEN ON THE NEXT CHART. YOU WILL NOTE THAT WHILE THE FRENCH CONSUMER PAID DOLS 2.96 A POUND, THE JAPANESE CONSUMER PAID DOLS 3.85 AND THE GERMAN CONSUMER PAID DOLS 5.11 PER POUND, THE UNITED STATES CONSUMER PAID ONLY DOLS 2.38 PER POUND. THE COUNTRIES
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REPRESENTED ON THAT CHART ACCOUNT FOR 87 PERCENT OF TOTAL WORLD COFFEE CONSUMPTION. I SHOULD POINT OUT THAT IN MANY EUROPEAN COUNTRIES SUBSTANTIAL IMPORT DUTIES AND OTHER TAXES ARE PLACED ON COFFEE. THERE ARE NO SUCH TAXES IN THE UNITED STATES.

MR. CHAIRMAN, I WOULD LIKE NOW TO ADDRESS DIRECTLY CERTAIN MISCONCEPTIONS ABOUT THE PRESENT COFFEE SITUATION.

FIRST, IT HAS BEEN SUGGESTED THAT THE STATE DEPARTMENT FAVORS HIGH COFFEE PRICES AS A SUBSTITUTE FOR OFFICIAL AID. THAT IS FALSE. THROUGHOUT THE NEGOTIATION OF THE INTERNATIONAL COFFEE AGREEMENT AND IN EVERY OTHER COMMODITY NEGOTIATION IN WHICH THE U.S. HAS PARTICIPATED, WE HAVE MADE IT ABSOLUTELY CLEAR THAT WE DO NOT SUPPORT COMMODITY AGREEMENTS AS A MEANS FOR TRANSFERRING RESOURCES FROM DEVELOPED COUNTRIES TO DEVELOPING COUNTRIES. I HAVE REPEATEDLY EMPHASIZED THIS IN MY PUBLIC STATEMENTS OVER THE PAST SEVERAL YEARS AND I REITERATE IT NOW.

SECOND, IT HAS BEEN SUGGESTED THAT THE COFFEE AGREEMENT IS DEFICIENT BECAUSE IT CONTAINS NO PRICE CEILING. THAT SUGGESTION SHOWS A FUNDAMENTAL MISCONCEPTION OF WHAT A COMMODITY AGREEMENT CAN DO. THERE ARE ONLY TWO WAYS A COMMODITY AGREEMENT CAN DEFEND A PRICE CEILING. ONE IS THROUGH USE OF STOCKS ACCUMULATED IN TIMES OF SURPLUS UNDER INTERNATIONAL CONTROL AND MADE AVAILABLE TO THE MARKET WHEN PRICES RISE. IN THE PRESENT SITUATION NO SUCH INTERNATIONAL STOCKS EXIST.

THE SECOND MEANS OF DEFENDING A CEILING WOULD BE TO APPORTION THE AVAILABLE COFFEE TO CONSUMER COUNTRIES AT A FIXED OR NEGOTIATED PRICE THROUGH AN ELABORATE SYSTEM OF RATIONING. TO BE EFFECTIVE, SUCH A SYSTEM WOULD REQUIRE EXTENSIVE ADMINISTRATIVE ARRANGEMENTS TO ENFORCE OBLIGATIONS AND TO POLICE OPERATIONS. IT WOULD

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PROBABLY INVOLVE THE UNITED STATES GOVERNMENT DIRECTLY IN DECIDING WHICH AMERICAN ROASTING COMPANIES RECEIVED HOW MUCH COFFEE FROM A GIVEN EXPORTING COUNTRY. IN RETURN FOR SUCH A PRICE GUARANTEE ON THE HIGH SIDE, WE WOULD HAVE TO GUARANTEE THE PRODUCING COUNTRIES A SIMILARLY ARBITRARY--AND PROBABLY VERY HIGH--PRICE ON THE LOWER SIDE. WE ARE NOT PREPARED TO DO SO.

THIRD, IT HAS BEEN SUGGESTED THAT PRODUCER EXPORT TAXES RAISE THE PRICE OF COFFEE TO THE CONSUMERS. I DO NOT BELIEVE THAT IS THE CASE. THE PRICE OF COFFEE IS DETERMINED BY WORLDWIDE SUPPLY AND DEMAND CONDITIONS. WITH OR WITHOUT AN EXPORT TAX, A FARMER WILL TRY TO GET THE HIGHEST POSSIBLE PRICE FOR HIS COFFEE IN COMPETITION

WITH OTHER GROWERS. THE SIZE OF THE EXPORT TAX DETERMINES THE DIVISION OF THE REVENUES FROM COFFEE SALES BETWEEN THE FARMER AND HIS GOVERNMENT. AS I INDICATED EARLIER, DESPITE THE EXISTENCE OF EXPORT TAXES, THE FINANCIAL RETURN TO THE COFFEE GROWERS IN MOST PRODUCING COUNTRIES HAS INCREASED CONSIDERABLY SINCE THE BRAZILIAN FROST. MOREOVER, IN MOST COUNTRIES, SOME PART OF THE EXPORT TAX IS RETURNED TO THE FARMER INDIRECTLY THROUGH SERVICES OR CREDITS SUCH AS THE DOLS 1 BILLION REPLANTING CREDIT IN BRAZIL.

MR. CHAIRMAN, THE OUTLOOK FOR COFFEE SUPPLIES AND PRODUCTION HAS NOT ALTERED SIGNIFICANTLY SINCE MY APPEARANCE LAST MARCH. I FORECAST THEN THAT "BARRING ANY NEW FROSTS OR OTHER DIFFICULTIES, SUPPLIES WOULD RETURN TO NORMAL IN 1979." IT IS WORTH REMEMBERING THAT WE ARE NOW HALFWAY THROUGH THE THREE-YEAR CYCLE IT TAKES TO RESTORE COFFEE PRODUCTION. WE ARE ON TRACK. PRODUCTION IS BEING RESTORED IN BRAZIL AND EXPANDED ELSEWHERE. IN THE MEANTIME, WE NEED SOME CALM UNDERSTANDING OF THE SITUATION AND AN AVOIDANCE OF STATE-UNCLASSIFIED

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MENTS THAT WILL CONTRIBUTE TO FURTHER PANICKY BUYING.

THESE HEARINGS CAN CONTRIBUTE IMPORTANTLY TO THAT UNDERSTANDING, MR. CHAIRMAN, AND I STAND READY TO CONTRIBUTE BY RESPONDING TO THE QUESTIONS OF THE COMMITTEE.

THANK YOU, MR. CHAIRMAN.
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